

**REPORT OF THE AUDIT OF THE
WAYNE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bruce Ramsey, Wayne County Judge/Executive
Members of the Wayne County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wayne County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Wayne County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WAYNE COUNTY FISCAL COURT

June 30, 2005

Tichenor & Associates, LLP has completed the audit of the Wayne County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Wayne County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$2,912,772 as of June 30, 2005. The fiscal court had unrestricted net assets of \$601,853 in its governmental activities as of June 30, 2005, with total net assets of \$1,654,309. In its business-type activities, total net cash and cash equivalents were \$120,430 with total net assets of \$1,258,463. The fiscal court had total debt principal as of June 30, 2005 of \$14,052,548 with \$557,113 due within the next year.

Report Comments:

- The Wayne County Airport Board Should Make Contractual Agreements Setting Forth Responsibilities Of Each Party
- The Wayne County Airport Board Should Strengthen Internal Controls

Deposits:

On August 31, 2004, \$1,242,043 of the fiscal courts deposits were uninsured and under collateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
WAYNE COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	35
NOTES TO FINANCIAL STATEMENTS.....	38
BUDGETARY COMPARISON SCHEDULES	57
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	60
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	63
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	67
COMMENTS AND RECOMMENDATIONS	50
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	75
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

TICHENOR & ASSOCIATES, LLP
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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Wayne County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Wayne County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Wayne County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

To the People of Kentucky
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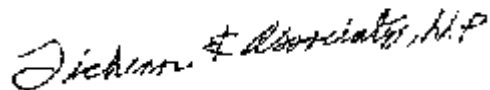
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wayne County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2006, on our consideration of Wayne County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Wayne County Airport Board Should Make Contractual Agreements Setting Forth Responsibilities Of Each Party
- The Wayne County Airport Board Should Strengthen Internal Controls

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Tichenor & Associates, LLP", is written over the printed name.

Tichenor & Associates, LLP

Audit fieldwork completed -
January 9, 2006

WAYNE COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Bruce Ramsey	County Judge/Executive
Jerry Sloan	Magistrate
Jesse Jones	Magistrate
Ricky Worley	Magistrate
Wade Upchurch	Magistrate

Other Elected Officials:

L. Lee Tobbe	County Attorney
Ray Upchurch	Jailer
Carol Jones	County Clerk
Richard Morrow	Circuit Court Clerk
James L. Hill	Sheriff
Bobby Upchurch	Property Valuation Administrator
Marvin S. Hicks	Coroner

Appointed Personnel:

Barbara Gehring	County Treasurer
Barbara Hagen	Occupational Tax Collector
Peggy Edwards	Finance Officer
Sue Thompson	Payroll Officer
Tony Blevins	Road Supervisor
Kathy Piercy	Jail Administrator

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WAYNE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

WAYNE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,074,905	\$ 120,430	\$ 1,195,335
Notes Receivable (Cable System)	86,799		86,799
Total Current Assets	<u>1,161,704</u>	<u>120,430</u>	<u>1,282,134</u>
Noncurrent Assets:			
Notes Receivable (Cable System)	2,158,539		2,158,539
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	6,010,998	192,899	6,203,897
Land and Land Improvements	925,035	90,312	1,015,347
Buildings	3,761,947	910,318	4,672,265
Other Equipment	251,182	9,434	260,616
Vehicles and Equipment	707,256	2,570	709,826
Infrastructure Assets - Net of Depreciation	<u>662,696</u>		<u>662,696</u>
Total Noncurrent Assets	<u>14,477,653</u>	<u>1,205,533</u>	<u>15,683,186</u>
Total Assets	<u>15,639,357</u>	<u>1,325,963</u>	<u>16,965,320</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds Due Within One Year	380,000		380,000
Financing Obligations Due Within One Year	169,613	7,500	177,113
Noncurrent Liabilities:			
Revenue Bonds Due In More Than One Year	11,010,000		11,010,000
Financing Obligations Due In More Than One Year	<u>2,425,435</u>	<u>60,000</u>	<u>2,485,435</u>
Total Liabilities	<u>13,985,048</u>	<u>67,500</u>	<u>14,052,548</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	579,404	1,138,033	1,717,437
Restricted For:			
Capital Projects	38,226		38,226
Debt Service	411,708		411,708
Grant Projects	23,118		23,118
Unrestricted	<u>601,853</u>	<u>120,430</u>	<u>722,283</u>
Total Net Assets	<u>\$ 1,654,309</u>	<u>\$ 1,258,463</u>	<u>\$ 2,912,772</u>

The accompanying notes are an integral part of the financial statements.

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WAYNE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

WAYNE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 486,234	\$ 596,960	\$ 148,390	\$
Protection to Persons and Property	2,384,874	971,560	70,173	
General Health and Sanitation	198,779			
Social Services	42,053			
Recreation and Culture	29,358			
Roads	907,195		1,144,759	
Airports	13,638			
Road Facilities	4,888			
Debt Service	784,070			
Capital Projects	2,921			548,129
Administration	1,048,919			
Total Governmental Activities	5,902,929	1,568,520	1,363,322	548,129
Business-type Activities:				
Jail Canteen	(280,630)	341,515	10,585	
Airport Board	(94,986)	100,778		153,944
Total Business-type Activities	(375,616)	442,293	10,585	153,944
Total Primary Government	\$ 5,527,313	\$ 2,010,813	\$ 1,373,907	\$ 702,073

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Income

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WAYNE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 259,116	\$	\$ 259,116
(1,343,141)		(1,343,141)
(198,779)		(198,779)
(42,053)		(42,053)
(29,358)		(29,358)
237,564		237,564
(13,638)		(13,638)
(4,888)		(4,888)
(784,070)		(784,070)
545,208		545,208
(1,048,919)		(1,048,919)
(2,422,958)		(2,422,958)
	632,730	632,730
	349,708	349,708
	982,438	982,438
(2,422,958)	982,438	(1,440,520)
419,396		419,396
57,296		57,296
91,447		91,447
2,411,987		2,411,987
161,201		161,201
265,712	10,658	276,370
36,574	239	36,813
3,443,613	10,897	3,454,510
1,020,655	993,335	2,013,990
633,654	1,074,536	1,708,190
\$ 1,654,309	\$ 2,067,871	\$ 3,722,180

The accompanying notes are an integral part of the financial statements.

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WAYNE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

WAYNE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Justice Center Project Fund	Detention Facility Project Fund
ASSETS					
Cash and Cash Equivalents	\$ 488,878	\$ 36,193	\$ 76,782	\$ 38,226	\$ 411,708
Total Assets	<u>488,878</u>	<u>36,193</u>	<u>76,782</u>	<u>38,226</u>	<u>411,708</u>
FUND BALANCES					
Reserved for:					
Encumbrances	261,746	59,951	42,218		
Unreserved:					
General Fund	227,132				
Special Revenue Funds		(23,758)	34,564		
Capital Projects Fund				38,226	
Debt Service Fund					411,708
Total Fund Balances	<u>488,878</u>	<u>36,193</u>	<u>76,782</u>	<u>38,226</u>	<u>411,708</u>

The accompanying notes are an integral part of the financial statements.

WAYNE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

	Non- Major Funds	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 23,118	\$ 1,074,905
Total Assets	<u>23,118</u>	<u>1,074,905</u>
FUND BALANCES		
Reserved for:		
Encumbrances	32	363,947
Unreserved:		
General Fund		227,132
Special Revenue Funds	23,086	33,892
Capital Projects Fund		38,226
Debt Service Fund		<u>411,708</u>
Total Fund Balances	<u>23,118</u>	<u>1,074,905</u>

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 1,074,905
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	13,562,212
Accumulated Depreciation	(1,243,098)
Receivable (Cable System)	2,245,338
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(2,595,048)
Bonded Debt	<u>(11,390,000)</u>
Net Assets Of Governmental Activities	<u>\$ 1,654,309</u>

The accompanying notes are an integral part of the financial statements.

WAYNE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

WAYNE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Justice Center Project Fund</u>
REVENUES				
Taxes	\$ 2,557,792	\$	\$	\$
In Lieu Tax Payments	182,826	669		
Excess Fees	161,201			
Licenses and Permits	17,790			
Intergovernmental	251,933	1,349,531	924,550	548,129
Charges for Services	596,960		47,610	
Miscellaneous	86,963	142	37,821	
Interest	4,942	3,758	706	6,313
Total Revenues	<u>3,860,407</u>	<u>1,354,100</u>	<u>1,010,687</u>	<u>554,442</u>
EXPENDITURES				
General Government	762,146			1,535,065
Protection to Persons and Property	1,454,427		1,015,759	
General Health and Sanitation	204,923			
Social Services	42,053			
Recreation and Culture	29,358			
Roads		1,384,998		
Airports	13,638			
Road Facilities		4,888		
Debt Service			2,000	546,128
Capital Projects	2,297,921			
Administration	805,571	101,642	137,441	
Total Expenditures	<u>5,610,037</u>	<u>1,491,528</u>	<u>1,155,200</u>	<u>2,081,193</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,749,630)</u>	<u>(137,428)</u>	<u>(144,513)</u>	<u>(1,526,751)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	2,369,000			
Transfers From Other Funds	59,856	135,664	391,534	
Transfers To Other Funds	(534,353)		(350,942)	
Total Other Financing Sources (Uses)	<u>1,894,503</u>	<u>135,664</u>	<u>40,592</u>	
Net Change in Fund Balances	144,873	(1,764)	(103,921)	(1,526,751)
Fund Balances - Beginning (Restated)	344,005	37,957	181,503	1,564,977
Fund Balances - Ending	<u>\$ 488,878</u>	<u>\$ 36,193</u>	<u>\$ 77,582</u>	<u>\$ 38,226</u>

The accompanying notes are an integral part of the financial statements.

WAYNE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

	<u>Detention Facility Project Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$	\$ 3,324	\$ 2,561,116
In Lieu Tax Payments			183,495
Excess Fees			161,201
Licenses and Permits			17,790
Intergovernmental		119,769	3,193,912
Charges for Services			644,570
Miscellaneous			124,926
Interest	20,793	62	36,574
Total Revenues	<u>20,793</u>	<u>123,155</u>	<u>6,923,584</u>
EXPENDITURES			
General Government	620	21,995	2,319,826
Protection to Persons and Property		85,386	2,555,572
General Health and Sanitation			204,923
Social Services			42,053
Recreation and Culture			29,358
Roads			1,384,998
Airports			13,638
Road Facilities			4,888
Debt Service	350,942		899,070
Capital Projects			2,297,921
Administration		4,265	1,048,919
Total Expenditures	<u>351,562</u>	<u>111,646</u>	<u>10,801,166</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(330,769)</u>	<u>11,509</u>	<u>(3,877,582)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds			2,369,000
Transfers From Other Funds	350,942	7,155	945,151
Transfers To Other Funds		(59,856)	(945,151)
Total Other Financing Sources (Uses)	<u>350,942</u>	<u>(52,701)</u>	<u>2,369,000</u>
Net Change in Fund Balances	20,173	(41,192)	(1,508,582)
Fund Balances - Beginning	391,535	64,310	2,583,487
Fund Balances - Ending	<u>\$ 411,708</u>	<u>\$ 23,118</u>	<u>\$ 1,074,905</u>

The accompanying notes are an integral part of the financial statements.

**WAYNE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

WAYNE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (1,508,582)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	2,357,418
Depreciation Expense	(193,781)

Governmental funds report loans to other entities as expenditures.

However, in the statement of net assets, this amount is recorded as a notes receivable.

	2,245,338
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while financing obligation and bond principle payments are expensed in the governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets

Financing Obligation proceeds	(2,369,000)
Financing Obligations	124,262
Bond Payments	<u>365,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 1,020,655</u></u>
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WAYNE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

WAYNE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 54,160	\$ 66,270	\$ 120,430
Total Current Assets	<u>54,160</u>	<u>66,270</u>	<u>120,430</u>
Noncurrent Assets:			
Capital Assets			
Land and Land Improvements		90,312	90,312
Buildings		1,161,952	1,161,952
Construction in Progress		192,899	192,899
Vehicles and Equipment	13,568	9,500	23,068
Less Accumulated Depreciation	(4,134)	(258,564)	(262,698)
Total Noncurrent Assets	<u>9,434</u>	<u>1,196,099</u>	<u>1,205,533</u>
Total Assets	<u>63,594</u>	<u>1,262,369</u>	<u>1,325,963</u>
Liabilities			
Current Liabilities:			
Financing Obligations		7,500	7,500
Noncurrent Liabilities:			
Financing Obligations		60,000	60,000
Total Liabilities		<u>67,500</u>	<u>67,500</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	9,434	1,128,599	1,138,033
Unrestricted	54,160	66,270	120,430
Total Net Assets	<u>\$ 63,594</u>	<u>\$ 1,194,869</u>	<u>\$ 1,258,463</u>

The accompanying notes are an integral part of the financial statements.

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WAYNE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

WAYNE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Total
Operating Revenues			
Canteen Receipts	\$ 341,515	\$	\$ 341,515
Airport Receipts		100,778	100,778
Total Operating Revenues	341,515	100,778	442,293
Operating Expenses			
Cost of Sales	236,987	42,980	279,967
Educational and Recreational	11,396		11,396
Personnel Costs	55,644		55,644
Depreciation	2,286	20,998	23,284
Interest		1,500	1,500
Miscellaneous	3,405	29,508	32,913
Total Operating Expenses	309,718	94,986	404,704
Operating Income (Loss)	31,797	5,792	37,589
Nonoperating Revenues (Expenses)			
Interest Income		239	239
Other Receipts		153,944	153,944
Transfers In		10,658	10,658
Transfers Out	(11,547)		(11,547)
Inmate Pay From State	10,585		10,585
Inmate Refunds	(17,541)		(17,541)
Total Nonoperating Revenues (Expenses)	(18,503)	164,841	146,338
Change In Net Assets	13,294	170,633	183,927
Total Net Assets - Beginning (restated)	50,300	1,024,236	1,074,536
Total Net Assets - Ending	\$ 63,594	\$ 1,194,869	\$ 1,258,463

The accompanying notes are an integral part of the financial statements.

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WAYNE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

WAYNE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Totals
Cash Flows From Operating Activities			
Receipts From Customers	\$ 341,515	\$ 100,778	\$ 442,293
Cost of Sales	(236,987)	(42,980)	(279,967)
Educational and Recreational	(11,396)		(11,396)
Personnel Costs	(55,644)		(55,644)
Interest		(1,500)	(1,500)
Miscellaneous	(3,405)	(29,508)	(32,913)
Net Cash Provided By Operating Activities	<u>34,083</u>	<u>26,790</u>	<u>60,873</u>
Cash Flows From Noncapital Financing Activities			
Inmate Pay From State	10,585		10,585
Transfers In		10,658	10,658
Transfers Out	(11,547)		(11,547)
Inmate Refunds on Accounts	(17,541)		(17,541)
Net Cash Provided By Noncapital Financing Activities	<u>(18,503)</u>	<u>10,658</u>	<u>(7,845)</u>
Cash Flows From Capital and Related Financing Activities			
State and Federal Monies		153,944	153,944
Borrowed Money			
Capital Outlay		(170,058)	(170,058)
Net Cash (Used) Provided By Capital and Related Financing Activities		<u>(16,114)</u>	<u>(16,114)</u>
Cash Flows From Investing Activities			
Interest Earned		239	239
Net Cash Provided By Investing Activities		<u>239</u>	<u>239</u>
Net Increase (Decrease) in Cash and Cash Equivalents	15,580	21,573	37,153
Cash and Cash Equivalents - July 1, 2004	<u>38,580</u>	<u>44,697</u>	<u>83,277</u>
Cash and Cash Equivalents - June 30, 2005	<u>\$ 54,160</u>	<u>\$ 66,270</u>	<u>\$ 120,430</u>

The accompanying notes are an integral part of the financial statements.

WAYNE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Totals
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 31,797	\$ 5,792	\$ 37,589
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities			
Depreciation Expense	2,286	20,998	23,284
Net Cash Provided By Operating Activities	<u>\$ 34,083</u>	<u>\$ 26,790</u>	<u>\$ 60,873</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	38
NOTE 2.	DEPOSITS.....	45
NOTE 3.	CAPITAL ASSETS	46
NOTE 4.	LONG-TERM DEBT.....	48
NOTE 5.	FINANCING OBLIGATIONS	49
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	52
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	53
NOTE 8.	DEFERRED COMPENSATION	53
NOTE 9.	INSURANCE	53
NOTE 10.	SUBSEQUENT EVENT.....	53
NOTE 11.	PRIOR PERIOD ADJUSTMENTS.....	54

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Wayne County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Wayne County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. The Public Properties Corporation's financial information is reported in the Justice Center Project Fund and Detention Facility Project Fund.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Wayne County Airport Board

The Wayne County Airport Board (the Board) was established to oversee the operations of the Wayne County Airport. The Board does not have separate corporate powers from those of the Fiscal Court. Therefore, management must include the Board as a component unit and the Board's financial activity has been blended with that of the Fiscal Court.

C. Wayne County Elected Officials Not Part Of Wayne County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Wayne County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Wayne County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide and fund financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Detention Facility Project Fund - This fund accounts for the accumulation of resources for the payment of long-term debt principal and interest for the Wayne County Detention Facility and is a part of the Public Properties Corporation. The Public Properties Corporation issued debt to build a detention facility and has entered into a contract, lease, and option with the County. The Governor's Office for local Development does not require the fiscal court to report or budget these funds.

**WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Justice Center Project Fund – This fund accounts for the funds used for construction of a new Justice Center and is a part of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to build the Justice Center and has entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The government also has the following non-major governmental funds: Local Government Economic Assistance Fund, Homeland Security Fund, Emergency Management Fund, and Timberland Tax Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Homeland Security Fund, Emergency Management Fund, and Timberland Tax Fund are special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Project Fund is a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Detention Facility Project fund is a debt service fund. Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

**WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales and services in the Jail Canteen Fund and the Airport Board Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Airport Board Fund – This fund is used to account for the operations of the Wayne County Airport. Operating revenues of this fund are derived mainly from fuel and water sales and the rental of hangar space at the airport. Operating expenses consist mainly of the cost of sales, office expenses and depreciation.

E. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land and land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, long-term loan agreements, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund, the Jail Canteen Fund, or the Airport Board Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Wayne County Fiscal Court:

Tri-County Animal Control is considered as a joint venture with Wayne, Clinton and Cumberland County Fiscal Courts.

Monticello-Wayne County Park is considered as a joint venture with the Wayne County Fiscal Court and the City of Monticello.

Community Telecom Services is considered as a joint venture with the Wayne County Fiscal Court and the City of Monticello.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of August 31, 2004, \$1,242,043 of the government's bank balance of \$2,111,745 was exposed to custodial credit risk as follows:

- Uncollateralized and uninsured - \$1,242,043

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 925,035	\$	\$	\$ 925,035
Construction In Progress	4,456,203	1,554,795		6,010,998
Total Capital Assets Not Being Depreciated	5,381,238	1,554,795		6,936,033
Capital Assets, Being Depreciated:				
Buildings	4,221,730			4,221,730
Other Equipment	237,182	118,327		355,509
Vehicles and Equipment	1,177,487	173,347		1,350,834
Infrastructure	187,157	510,949		698,106
Total Capital Assets Being Depreciated	5,823,556	802,623		6,626,179
Less Accumulated Depreciation For:				
Buildings	(411,491)	(48,292)		(459,783)
Other Equipment	(77,537)	(26,790)		(104,327)
Vehicles and Equipment	(552,803)	(90,775)		(643,578)
Infrastructure	(7,486)	(27,924)		(35,410)
Total Accumulated Depreciation	(1,049,317)	(193,781)		(1,243,098)
Total Capital Assets, Being Depreciated, Net	4,774,239	608,842		5,383,081
Governmental Activities Capital Assets, Net	\$ 10,155,477	\$ 2,163,637	\$	\$ 12,319,114

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 90,312	\$	\$	\$ 90,312
Construction in progress	30,341	162,558		192,899
Total Capital Assets Not Being Depreciated	120,653	162,558		283,211
Capital Assets, Being Depreciated:				
Buildings	1,161,952			1,161,952
Other equipment	13,568			13,568
Vehicles and Equipment	9,500			9,500
Total Capital Assets Being Depreciated	1,185,020			1,185,020
Less Accumulated Depreciation For:				
Buildings	(231,881)	(19,753)		(251,634)
Other Equipment	(1,848)	(2,286)		(4,134)
Vehicles and Equipment	(5,685)	(1,245)		(6,930)
Total Accumulated Depreciation	(239,414)	(23,284)		(262,698)
Total Capital Assets, Being Depreciated, Net	945,606	(23,284)		922,322
Business-Type Activities Capital Assets, Net	<u>\$ 1,066,259</u>	<u>\$ 139,274</u>	<u>\$</u>	<u>\$ 1,205,533</u>
Depreciation expense was charged to functions of the primary government as follows:				
General Health and Sanitation				4,156
Roads, Including Depreciation of General Infrastructure Assets				39,946
Total Depreciation Expense - Governmental Activities				<u>\$ 193,781</u>
<u>Business-Type Activities</u>				
Jail Canteen				\$ 2,286
Airport				20,998
Total Depreciation Expense - Business-Type Activities				<u>\$ 23,284</u>

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 4. Long-term Debt

A. Detention Facility

On November 10, 1999, the Public Properties Corporation issued \$4,665,000 of First Mortgage Revenue Bonds, Series 1999, for the construction of the Wayne County Detention Facility. The bonds have various interest rates from 4.75% to 5.70%. Interest is payable each May 1 and November 1, commencing May 1, 2000. Principal is payable each November 1, commencing November 1, 2001. Revenue bonds outstanding at June 30, 2005, were \$4,245,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 120,000	\$ 230,068
2007	125,000	223,943
2008	130,000	217,568
2009	130,000	211,068
2010	140,000	204,318
2011-2015	810,000	901,628
2016-2020	1,055,000	646,401
2021-2025	1,405,000	302,993
2026-2030	330,000	9,405
Totals	<u>\$ 4,245,000</u>	<u>\$ 2,947,392</u>

B. Justice Center

On January 1, 2003, the Public Properties Corporation issued \$7,395,000 of First Mortgage Revenue Bonds, Series 2003, for the construction of the Wayne County Justice Center. The bonds have various interest rates from 3.50% to 4.25%. Interest is payable each March 1 and September 1, commencing September 1, 2003. Principal is payable each September 1, commencing September 1, 2004. Revenue bonds outstanding at June 30, 2005, were \$7,145,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 260,000	\$ 287,202
2007	265,000	277,684
2008	275,000	267,559
2009	290,000	256,603
2010	300,000	244,802
2011-2015	1,690,000	1,030,413
2016-2020	2,070,000	649,525
2021-2025	1,995,000	173,719
Totals	<u>\$ 7,145,000</u>	<u>\$ 3,187,507</u>

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 5. Financing Obligations

The county has entered into the following agreements:

A. Voting Machines

On June 27, 1997, the Wayne County Fiscal Court entered into a \$100,000 agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of voting machines. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments ending on January 20, 2007. As of June 30, 2005, the principal balance remaining was \$24,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2006	\$ 12,000	\$ 1,136
2007	12,000	418
Totals	<u>\$ 24,000</u>	<u>\$ 1,554</u>

B. Fire Pumper

On April 5, 2004, the Wayne County Fiscal Court entered into a \$163,000 agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of a Fire Pumper. Terms of the agreement stipulate a five-year repayment schedule, with variable interest payments and variable annual principal payments ending on April 20, 2009. As of June 30, 2005, the principal balance remaining was \$143,144. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 23,403	\$ 4,516
2007	31,437	3,644
2008	42,230	2,479
2009	46,074	887
Totals	<u>\$ 143,144</u>	<u>\$ 11,526</u>

C. Ambulances

On December 22, 2003, the Wayne County Fiscal Court entered into a \$150,900 agreement with Kansas State Bank of Manhattan for the acquisition of two 2003 McCoy Miller Type I Ambulances. Terms stipulated a five-year repayment schedule of twenty (20) quarterly payments through December 22, 2008, at one percent interest. As of June 30, 2005, the principal balance remaining was \$108,959. Future principal and interest requirements are:

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 5. Financing Obligations (Continued)

C. Ambulances (Continued)

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 29,489	\$ 4,204
2007	30,775	2,919
2008	32,116	1,577
2009	16,579	267
Totals	<u>\$ 108,959</u>	<u>\$ 8,967</u>

D. Airport Loan (Business-Type Activities)

On October 20, 2003, the Airport Board, with approval from the Wayne County Fiscal Court entered into a \$75,000 loan agreement with the Kentucky Transportation Cabinet for the improvement of the airport. Terms of the agreement stipulate a ten-year repayment schedule with interest of two percent. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 7,500	\$ 1,350
2007	7,500	1,200
2008	7,500	1,050
2009	7,500	900
2010	7,500	750
2011-2014	30,000	1,500
Totals	<u>\$ 67,500</u>	<u>\$ 6,750</u>

E. Cable System Loan/Notes Receivable

On August 12, 2004, the Wayne County Fiscal Court passed and adopted a resolution authorizing the county to enter into a joint venture with the City of Monticello for the purchase and improvement of a cable television system. Financing of the county's portion of the project is to be provided through a certain lease agreement between the Kentucky League of Cities Leasing Trust ("the Lessor") and the County ("the Lessee") at an aggregate principal amount not to exceed \$2,300,000. Terms of the agreement stipulate a twenty-year repayment schedule beginning December 2004, with interest of 2.23%. The annual debt service to be paid from the cable service fees collected. Future principal and interest requirements are:

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 5. Financing Obligations (Continued)

E. Cable System Loan/Notes Receivable (Continued)

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 86,799	\$ 66,562
2007	89,423	63,937
2008	92,012	61,348
2009	94,956	58,404
2010	98,733	54,627
2011-2015	534,620	232,180
2016-2020	619,055	146,746
2021-2025	629,740	47,600
Totals	<u>\$ 2,245,338</u>	<u>\$ 731,404</u>

The County has also recorded a note receivable due from the joint venture for the amount of the debt incurred by the County as follows:

Current portion	\$ 86,799
Long-Term Portion	2,158,539
Total	<u>\$ 2,245,338</u>

F. Ambulance and Heart Monitor

On October 13, 2004, the Wayne County Fiscal Entered into a \$74,000 agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of an Ambulance and Heart Monitor. Terms of the agreement stipulate a five-year repayment schedule, with a 2.73% fixed interest rate and annual principal payments of \$15,000 ending on January 20, 2009. As of June 30, 2005, the principal balance remaining was \$59,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 15,000	\$ 1,868
2007	15,000	1,342
2008	15,000	839
2009	14,000	301
Totals	<u>\$ 59,000</u>	<u>\$ 4,350</u>

G. Hope Center

On February 16, 2001, the Wayne County Fiscal Court entered into a lease with option to purchase agreement with the Commonwealth of Kentucky for the acquisition of the Hope Center formerly the Old Maintenance Site. Terms of the agreement stipulate a yearly principal payment of \$2,922 for a period of ten years ending on July 1, 2010. As of June 30, 2005, the principal balance remaining was \$14,607.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 5. Financing Obligations (Continued)

G. Hope Center (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>
2006	\$ 2,922
2007	2,922
2008	2,922
2009	2,922
2010	2,919
Totals	<u>\$ 14,607</u>

H. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds (Note 4.)	\$ 11,755,000	\$	\$ 365,000	\$11,390,000	\$ 380,000
Financing Obligations	<u>350,310</u>	<u>2,369,000</u>	<u>124,262</u>	<u>2,595,048</u>	<u>169,613</u>
Governmental Activities Long-term Liabilities	<u>\$ 12,105,310</u>	<u>\$ 2,369,000</u>	<u>\$ 489,262</u>	<u>\$13,985,048</u>	<u>\$ 549,613</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type Activities:</u>					
Long Term Airport Loan	<u>\$ 75,000</u>		<u>\$ 7,500</u>	<u>\$ 67,500</u>	<u>\$ 7,500</u>

Note 6. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$13,892 in interest on financing obligations and \$532,070 in interest on bonds and notes.

**WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Wayne County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Wayne County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Event

On September 1, 2005, the Public Properties Corporation issued \$560,000 of First Mortgage Revenue Bonds, Series 2005, for construction of the Wayne County Justice Center.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 11. Prior Period Adjustments

The beginning balance of net assets and fund balances has been restated as follows:

	Governmental	Business-Type	General	Airport Board
	<u>Activities</u>	<u>Activities</u>	<u>Fund</u>	<u>Fund</u>
Beginning Balances	737,753	1,048,220	342,805	997,920
Less: Overstatement of Capital Assets	(87,170)			
Less: Long-term debt previously not recorded	(17,529)			
Plus: immaterial corrections	600		600	
Plus: Capital Assets previously not recorded, net of accumulated depreciation		26,316		26,316
Beginning Net Assets-Restated	<u>633,654</u>	<u>1,074,536</u>	<u>343,405</u>	<u>1,024,236</u>

WAYNE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

WAYNE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,365,935	\$ 2,514,088	\$ 2,557,792	\$ 43,704
In Lieu Tax Payments	203,100	206,900	182,826	(24,074)
Excess Fees	88,144	153,007	161,201	8,194
Licenses and Permits	21,575	21,575	17,790	(3,785)
Intergovernmental Revenue	709,476	742,911	251,933	(490,978)
Charges for Services	570,350	570,350	596,960	26,610
Miscellaneous	52,000	88,524	87,563	(961)
Interest	3,500	3,500	4,942	1,442
Total Revenues	<u>4,014,080</u>	<u>4,300,855</u>	<u>3,861,007</u>	<u>(439,848)</u>
EXPENDITURES				
General Government	680,037	699,437	762,146	(62,709)
Protection to Persons and Property	1,378,188	1,446,088	1,454,427	(8,339)
General Health and Sanitation	183,439	193,739	204,923	(11,184)
Social Services	42,555	42,555	42,053	502
Recreation and Culture	35,100	35,100	29,358	5,742
Airports	52,000	52,000	13,638	38,362
Debt Service	548,128	548,128		548,128
Capital Projects	2,922	2,922	2,921	1
Administration	776,664	1,142,499	805,571	336,928
Total Expenditures	<u>3,699,033</u>	<u>4,162,468</u>	<u>3,315,037</u>	<u>847,431</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>315,047</u>	<u>138,387</u>	<u>545,970</u>	<u>407,583</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		74,000	74,000	
Transfers From Other Funds		59,856	59,856	
Transfers To Other Funds	(615,047)	(615,047)	(534,353)	80,694
Total Other Financing Sources (Uses)	<u>(615,047)</u>	<u>(481,191)</u>	<u>(400,497)</u>	<u>80,694</u>
Net Changes in Fund Balance	(300,000)	(342,804)	145,473	488,277
Fund Balance - Beginning	<u>300,000</u>	<u>342,804</u>	<u>343,405</u>	<u>601</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 488,878</u>	<u>\$ 488,878</u>

WAYNE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 650	\$ 650	\$ 669	\$ 19
Intergovernmental Revenue	1,009,940	1,372,610	1,349,531	(23,079)
Miscellaneous	100	100	142	42
Interest	3,750	3,750	3,758	8
Total Revenues	1,014,440	1,377,110	1,354,100	(23,010)
EXPENDITURES				
Roads	1,040,063	1,179,188	1,384,998	(205,810)
Transportation Facilities and Services	4,550	4,550	4,888	(338)
Administration	112,491	366,993	101,642	265,351
Total Expenditures	1,157,104	1,550,731	1,491,528	59,203
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(142,664)	(173,621)	(137,428)	36,193
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	135,664	135,664	135,664	
Total Other Financing Sources (Uses)	135,664	135,664	135,664	
Net Changes in Fund Balance	(7,000)	(37,957)	(1,764)	36,193
Fund Balance - Beginning	7,000	37,957	37,957	
Fund Balance - Ending	\$ 0	\$ 0	\$ 36,193	\$ 36,193

WAYNE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 710,481	\$ 785,625	\$ 924,550	\$ 138,925
Charges for Services	42,300	44,236	47,610	3,374
Miscellaneous	32,900	35,032	37,221	2,189
Interest	400	636	706	70
Total Revenues	786,081	865,529	1,010,087	144,558
EXPENDITURES				
Protection to Persons and Property	957,430	1,001,527	1,015,759	(14,232)
Debt Service	352,943	2,001	2,000	1
Administration	149,636	184,987	137,441	47,546
Total Expenditures	1,460,009	1,188,515	1,155,200	33,315
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(673,928)	(322,986)	(145,113)	177,873
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	473,928	473,928	391,534	(82,394)
Transfers To Other Funds		(350,942)	(350,942)	-
Total Other Financing Sources (Uses)	473,928	122,986	40,592	(82,394)
Net Changes in Fund Balance	(200,000)	(200,000)	(104,521)	95,479
Fund Balance - Beginning	200,000	200,000	181,303	(18,697)
Fund Balance - Ending	\$ 0	\$ 0	\$ 76,782	\$ 76,782

WAYNE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of Budgetary Basis to Modified Cash Basis

	<u>General Fund</u>
Expenditures-Budgetary Basis	3,315,037
Plus: expenditure for cable system loan	<u>2,295,000</u>
Expenditures-Modified Cash Basis	<u><u>5,610,037</u></u>
Other Financing Sources (Uses)	
Budgetary Basis	(400,497)
Plus: Financing Obligation Proceeds- Cable System	<u>2,295,000</u>
Modified Cash Basis	<u><u>1,894,503</u></u>

**WAYNE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

WAYNE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	LGEA Fund	Homeland Security Fund	Emergency Management Fund	Timberland Tax Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 5	\$ 8,820	\$ 5,691	\$ 8,602	\$ 23,118
Total Assets	<u>5</u>	<u>8,820</u>	<u>5,691</u>	<u>8,602</u>	<u>23,118</u>
FUND BALANCES					
Reserved for:					
Encumbrances			32		32
Unreserved:					
Special Revenue Funds	5	8,820	5,659	8,602	23,086
Total Fund Balances	<u>\$ 5</u>	<u>\$ 8,820</u>	<u>\$ 5,691</u>	<u>\$ 8,602</u>	<u>\$ 23,118</u>

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WAYNE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

WAYNE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	LGEA Fund	Homeland Security Fund	Emergency Management Fund	Timberland Tax Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$	\$	\$	\$ 3,324	\$ 3,324
Intergovernmental	25,288	24,308	70,173		119,769
Interest	24			38	62
Total Revenues	<u>25,312</u>	<u>24,308</u>	<u>70,173</u>	<u>3,362</u>	<u>123,155</u>
EXPENDITURES					
General Government	21,995				21,995
Protection to Persons and Property	10,000	58,050	13,470	3,866	85,386
Administration	3,262		1,003		4,265
Total Expenditures	<u>35,257</u>	<u>58,050</u>	<u>14,473</u>	<u>3,866</u>	<u>111,646</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(9,945)</u>	<u>(33,742)</u>	<u>55,700</u>	<u>(504)</u>	<u>11,509</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	1,700		5,455		7,155
Transfers To Other Funds			(59,856)		(59,856)
Total Other Financing Sources (Uses)	<u>1,700</u>		<u>(54,401)</u>		<u>(52,701)</u>
Net Change in Fund Balances	(8,245)	(33,742)	1,299	(504)	(41,192)
Fund Balances - Beginning	8,250	42,562	4,392	9,106	64,310
Fund Balances - Ending	<u>\$ 5</u>	<u>\$ 8,820</u>	<u>\$ 5,691</u>	<u>\$ 8,602</u>	<u>\$ 23,118</u>

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COMMENTS AND RECOMMENDATIONS

**WAYNE COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2005

REPORTABLE CONDITIONS

The Wayne County Airport Board Should Make Contractual Agreements Setting Forth Responsibilities Of Each Party

The Airport Board is a governmental unit, and part of the Fiscal Court. The Airport Board has one board member that is also a magistrate of the Fiscal Court and he informs the Fiscal Court of major issues, topics and concerns of the Airport Board. The Fiscal Court does not receive the financial statements of the Airport Board for review. The Fiscal Court currently pays 1/3 of the combined liability insurance for the Airport Board, and the airport operator/mechanic (sole proprietor).

We recommend the Wayne County Airport Board make a contractual agreement with the Wayne County Fiscal Court, setting forth the responsibilities of each party. Specifically: the Airport Board is to issue a financial statement monthly and present it to the Fiscal Court for review, the Fiscal Court will pay 1/3 of the combined liability insurance of the Airport Board and the airport operator/mechanic.

Additionally, the Airport Board operator/mechanic works independently (sole proprietor) at the airport. The Airport Board and the operator/mechanic have an oral agreement relating to use of the Hanger for the operator's mechanical duties, purchases of supplies for mechanical duties, and commissions the operator/mechanic receives for fuel sales.

We further recommend the Wayne County Airport Board make a contractual agreement with the airport operator/mechanic setting forth the responsibilities of each party. Specifically: use of the Hanger space by the operator/mechanic, the operator/mechanic's responsibility for purchasing all supplies related to his mechanical duties, the Airport Board will record the fuel readings on a daily basis and deposit all monies received for fuel sales into the Wayne County Airport Board's bank account and issue a check to the operator/mechanic at the end of every month for his fuel sales commission, 1/3 of the combined liability insurance of the Airport Board and the operator/mechanic will be paid by operator/mechanic.

Airport Board Chairman Ralph Davis's Response: Will do contract with Fiscal Court and operator/mechanic.

WAYNE COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2005
(Continued)

REPORTABLE CONDITIONS (Continued)

The Wayne County Airport Board Should Strengthen Internal Controls

During the testing of expenditures, we concluded that there were weaknesses in internal controls. Due to the entity's small size and budget restrictions the Wayne County Airport Board has no options for establishing an adequate segregation of duties. To offset this weakness in internal controls, the Wayne County Airport Board could implement the following controls as follows:

- All disbursements should be made by check and with two authorized signatures
- All disbursements should be approved by the board
- Should utilize the bidding process for contracted fuel purchases
- All fuel sales monies should be deposited into the airport board account
- All commissions paid for fuel sales should be made by check

Airport Board Chairman Ralph Davis's Response: Will comply with all listed. Impossible to check daily, he (operator/mechanic) will write check for full amount and board will then pay commissions.

PRIOR YEAR FINDING

The following finding was reported in the prior year audit report. The finding has not been corrected and is a current year finding.

- The Wayne County Airport Board Should Strengthen Internal Controls

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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LOUISVILLE, KY 40243

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FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable Bruce Ramsey, Wayne County Judge/Executive
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 9, 2006. Wayne County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wayne County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Wayne County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of comments and recommendations.

- The Wayne County Airport Board Should Make Contractual Agreements Setting Forth Responsibilities Of Each Party
- The Wayne County Airport Board Should Strengthen Internal Controls

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider none to be a material weakness.

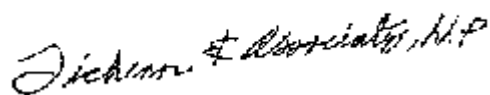
Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Wayne County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
January 9, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

WAYNE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

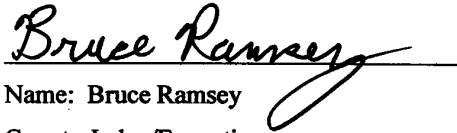
CERTIFICATION OF COMPLIANCE

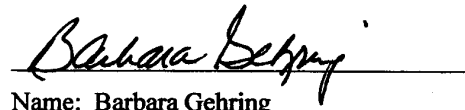
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

WAYNE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2005

The Wayne County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.


Name: Bruce Ramsey
County Judge/Executive


Name: Barbara Gehring
County Treasurer